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BLACKWOOD HODGE (CANADA) LIMITED

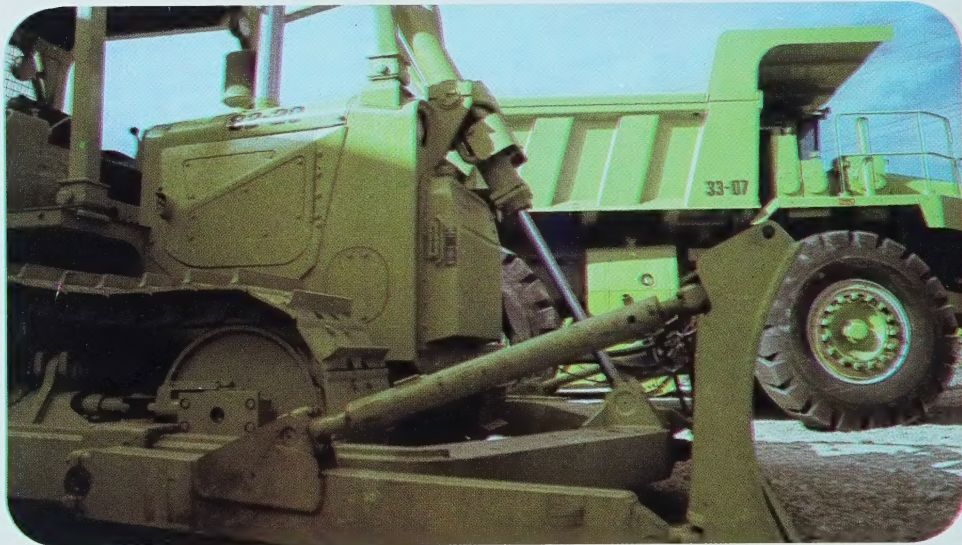
ANNUAL REPORT 1975



BLACKWOOD HODGE (CANADA) LIMITED

Annual Report 1975





Since 1953, Blackwood Hodge has built an enviable reputation for supplying reliable equipment, dependable service and experience to the mining, forestry and heavy construction industries. This company of Canadians has been honed by rugged Canadian conditions to become a skilled and dedicated group.

Together with its subsidiary companies — Suntract Rentals, who supply small equipment to contractors, and Suntract Limited, who manufacture heavy equipment and custom structural platework — Blackwood Hodge represents an in-depth marketing force to the resource and construction industries from the Atlantic to the midwest of Canada.





REPORT TO THE SHAREHOLDERS

A year ago we said that we were looking for "another year of real growth in turnover and profits". We are happy to report that both have been achieved. In 1975 turnover increased by 25% to a new high of \$109,753,000 and earnings were \$1.42 per share, an increase of 31%. Your company will pay a final dividend of 25¢, making a total of 50¢ for the fiscal year.

Our broad policy over the years can be described as follows: To increase our geographic coverage in Canada; To strengthen our servicing capability; To market complimentary lines of equipment to Canada's three basic industries — construction, mining and forest products — and finally to add an increasing amount of Canadian content to our product range. During 1975 we took further, and profitable, steps toward implementing this policy.

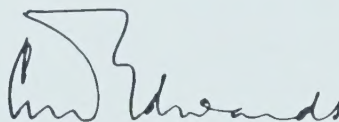
— We now have four major marketing areas in Canada — Western (which covers Manitoba and the Lakehead), Ontario, Quebec and the Maritimes. Each area is self-sufficient as regards management and facilities and each is profitable.

— Our total capital expenditure commitments in 1975, largely on our service facilities, came to \$2,012,000. Included in this figure were three major new buildings — one in Winnipeg, Manitoba, one in Val d'Or, Quebec and the other one in St. John's, Newfoundland. We now have 20 major servicing facilities plus 32 rental outlets by our subsidiary company, Suntract Rentals Limited — perhaps the most extensive coverage in the industry.

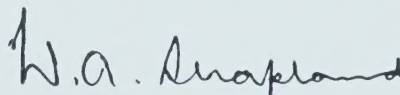
— The "Canadian content" of our products increased substantially during 1975 as a result of the expansion in our manufacturing operations at Toronto and Montreal. It should also be noted that one of our major suppliers, General Motors of London, Ontario, builds a large part of its Terex product line in Canada.

In attempting to predict 1976 the usual problems are made more complex by the, as yet, unknown effects of the Government's anti-inflationary programme. However, our business is broadly based and related to the fundamental industries of the country. The policies we have followed are consistent with the Government's stated objectives and we therefore expect that a continuation of those policies will maintain our growth record in 1976. In addition, we have entered into an agreement to purchase Tobin Tractor (1957) Limited of Saskatchewan, a business closely related to our own in terms of product range and marketing style. This acquisition, subject to FIRA approval, would add significantly to our 1976 results.

No company could have maintained a record of growth such as ours without a first-class management team and some very dedicated people to support them. We are in an industry where service is the key quality and every employee plays a role in providing it to our customers. To the employees of Blackwood Hodge (Canada), our thanks for a job well done in 1975.



A.W. Edwards, *President & Chief Executive Officer*



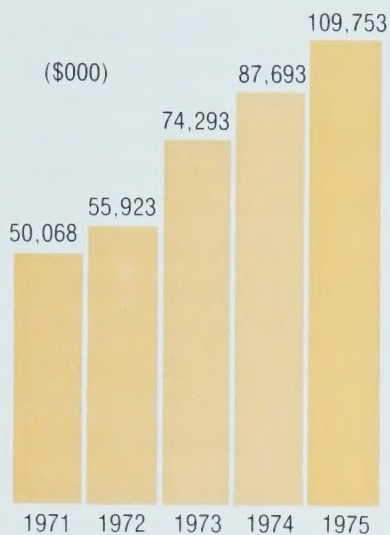
W.A. Shapland, *Chairman*

FIVE YEAR FINANCIAL REVIEW

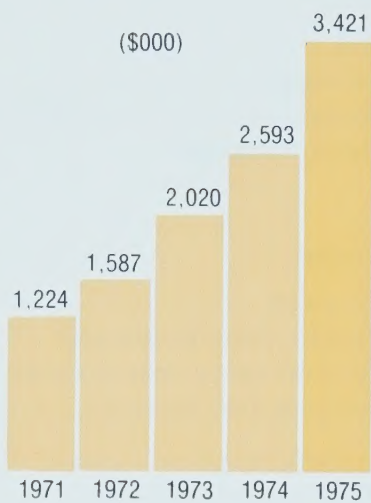
(\$000)	1975	1974	1973	1972	1971 (14 mos.)
Sales and Rentals	<u>\$109,753</u>	<u>\$87,693</u>	<u>\$74,293</u>	<u>\$55,923</u>	<u>\$50,068</u>
Operating earnings	\$ 11,378	\$ 9,282	\$ 6,788	\$ 4,790	\$ 3,952
Interest earned	1,263	1,162	816	768	840
Interest expense	5,857	5,069	3,587	2,591	2,088
Income taxes	<u>3,363</u>	<u>2,782</u>	<u>1,997</u>	<u>1,380</u>	<u>1,480</u>
Net operating earnings	3,421	2,593	2,020	1,587	1,224
Extraordinary item	<u>—</u>	<u>—</u>	<u>—</u>	1,266	—
Net earnings	<u>\$ 3,421</u>	<u>\$ 2,593</u>	<u>\$ 2,020</u>	<u>\$ 2,853</u>	<u>\$ 1,224</u>
Cash flow	\$ 6,449	\$ 6,119	\$ 5,136	\$ 4,096	\$ 3,045
Earnings per share:					
Before extraordinary item . . .	1.42	1.08	.93	.88	.68
After extraordinary item	1.42	1.08	.93	1.59	.68
Dividends: *					
Class A50	.40	.20	—	—
Class B425	.34	.17	—	—
Equity per share	9.28	8.36	6.78	5.43	3.85
Shareholders' equity	22,298	20,061	16,263	10,780	7,933
Working capital	11,286	9,783	9,524	4,764	1,252
Total assets	\$102,230	\$91,342	\$74,084	\$61,404	\$47,914

* -Includes the interim and final dividends paid in respect of the above fiscal years. The final dividend for 1975 on Class A and Class B shares of \$.25 and \$.2125 respectively has been declared payable on April 9, 1976.

SALES VOLUME



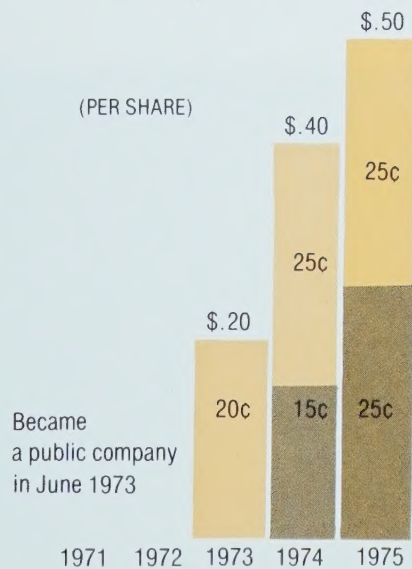
NET OPERATING EARNINGS



EARNINGS PER SHARE



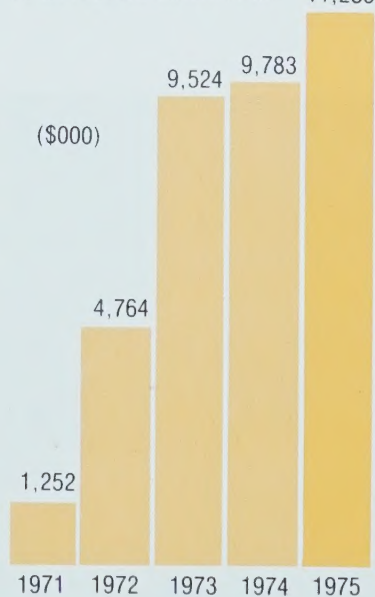
DIVIDENDS PAID



EQUITY PER SHARE



WORKING CAPITAL



Blackwood Hodge (Canada) Limited

CONSOLIDATED BALANCE SHEET

ASSETS

as at December 31

(\$000)

Current assets:

	1975	1974
Cash	\$ 159	\$ 38
Instalment receivables	3,574	4,152
Accounts receivable	24,518	21,433
Due from affiliated companies	475	694
Inventories:		
Equipment	27,858	21,705
Parts and supplies	18,526	16,893
Total current assets	75,110	64,915
Instalment receivables - due after one year	4,790	4,780
Investments - at cost (no quoted market value)	1,350	1,350
Property, plant and equipment (Note 2)	20,980	20,297
Total	\$102,230	\$91,342

Approved by the Board of Directors:

A. W. Edwards, Director

J. G. Torrance, Q. C., Director



LIABILITIES AND SHAREHOLDERS' EQUITY

	(\$000)	
	1975	1974
Current liabilities:		
Bank indebtedness (Note 3)	\$22,956	\$25,240
Notes payable (Note 4)	27,457	18,379
Accounts payable and accrued charges	9,223	7,336
Income and other taxes	2,437	1,385
Due to affiliated companies	54	233
Deferred income taxes	1,697	2,559
Total current liabilities	63,824	55,132
Notes payable - due after one year	7,196	8,048
Long-term debt (Note 5)	6,769	5,806
Deferred income taxes	2,143	2,295
Total liabilities	79,932	71,281
Shareholders' equity:		
Capital stock (Note 6)	5,525	5,512
Appraisal surplus (Note 2)	3,393	3,393
Retained earnings	13,380	11,156
Total shareholders' equity	22,298	20,061
Total	\$102,230	\$91,342



EARNINGS**CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS**

for the year ended December 31

(\$000)

Earnings for the Year	1975	1974
Sales and rentals	\$109,753	\$87,693
Costs and expenses	98,375	78,411
Earnings from operations	11,378	9,282
Interest earned	1,263	1,162
Earnings before interest charges	12,641	10,444
Interest charges - current debt	5,230	4,430
- long-term debt	627	639
Total interest charges	5,857	5,069
Earnings before income taxes	6,784	5,375
Provision for income taxes	3,363	2,782
Net earnings for the year	\$ 3,421	\$ 2,593
Earnings per Share (Note 7)	\$ 1.42	\$ 1.08
Retained Earnings		
Balance at beginning of year	\$ 11,156	\$ 9,630
Net earnings for the year	3,421	2,593
	14,577	12,223
Deductions:		
Dividends paid - Class A	1,173	831
- Class B	24	8
Goodwill written off	—	210
Tax paid on undistributed earnings	—	18
Balance at end of year	\$ 13,380	\$11,156

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FUNDS

for the year ended December 31

(\$000)

Source of Working Capital	1975	1974
Net earnings for the year	\$ 3,421	\$ 2,593
Add back items not involving funds:		
Depreciation	3,180	3,012
Deferred income taxes	(152)	514
Working capital from operations	6,449	6,119
Sale of rental equipment	3,229	3,610
Issue of shares	13	—
Increase (decrease) in long-term debt	963	(1,219)
	<u>10,654</u>	<u>8,510</u>
 Use of Working Capital		
Property, plant and rental equipment	7,092	7,943
Dividends	1,197	839
Acquisition of subsidiary, less working capital acquired . . .	—	313
Decrease (increase) in notes payable	852	(1,168)
Increase in instalment receivables	10	306
Tax paid on undistributed earnings	—	18
	<u>9,151</u>	<u>8,251</u>
 Increase in working capital	1,503	259
Working capital at beginning of year	<u>9,783</u>	<u>9,524</u>
 Working capital at end of year	<u>\$11,286</u>	<u>\$ 9,783</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned. The following companies are active subsidiaries:

Blackwood Hodge Ontario Limited
Blackwood Hodge Ontario Sales Limited
Blackwood Hodge Quebec Ltd.
Blackwood Hodge Quebec Sales Ltd.
Blackwood Hodge Atlantic Limited
Blackwood Hodge Atlantic Sales Limited
Blackwood Hodge Western Limited
Blackwood Hodge Western Sales Limited
Suntract Rentals Limited
Suntract Manufacturing Limited
Suntract Limited (formerly Mulder (Canada) Limited)

Foreign currency translation

Transactions in foreign currencies have been translated into Canadian dollars at rates prevailing at the time of the transactions, except that current assets and current liabilities have been translated at the quoted rates of exchange at the end of the year.

Instalment receivables

The profit on sales which are financed by instalment sales contracts is recognized at the time of the sale and the interest earned is recognized over the term of the contract.

Valuation of inventory

Inventories are recorded at the lower of cost and net realizable value. Cost is on a specific item basis for equipment and a first-in, first-out basis for parts and supplies.

Depreciation of property, plant and equipment

Depreciation is provided on the straight-line basis at the following rates:

Buildings	2 1/2%
Equipment	10%-20%
Rental fleet	18%-30%

It is Group policy to have land and buildings appraised on the going-concern basis approximately every five years and to record the resulting values at that time by eliminating accumulated depreciation and increasing the asset accounts to appraisal value.

Income taxes

The companies claim capital cost allowance for income tax purposes on rental equipment included in inventories. The excess of capital cost allowance claimed over depreciation provided in the accounts on such equipment results in a deferral of income tax which is included in current liabilities.

The non-current portion of deferred income taxes arises principally from claiming capital cost allowance for tax purposes in excess of depreciation recorded for plant and equipment.

2. PROPERTY, PLANT AND EQUIPMENT

	1975	1974
Land	\$ 3,141,000	\$ 3,141,000
Buildings	7,378,000	5,889,000
Equipment	3,493,000	3,004,000
Rental fleet	16,882,000	16,415,000
	30,894,000	28,449,000
Less accumulated depreciation	9,914,000	8,152,000
	<u>\$20,980,000</u>	<u>\$20,297,000</u>

NOTES (continued)

The companies' land and buildings are recorded at their going-concern value, based upon appraisals made by Bosley Farr Associates Ltd. as of December 31, 1974, with subsequent additions at cost. The excess of appraisal value over depreciated value is included in shareholders' equity. Of this excess, \$1,300,000 may not be distributed by way of dividends until 1980.

The equipment and rental fleet are recorded at cost.

3. BANK INDEBTEDNESS

	1975	1974
Current operating loans . . .	\$ 7,064,000	\$11,162,000
Outstanding cheques . . .	4,392,000	4,078,000
Bankers acceptances . . .	<u>11,500,000</u>	<u>10,000,000</u>
	<u>\$22,956,000</u>	<u>\$25,240,000</u>

Bank loans and bankers acceptance notes are secured by assignments of accounts receivable and are guaranteed as to \$4,000,000 by Blackwood Hodge Limited. Interest on bank loans (10 3/4% at December 31, 1975) is at 1% over the bank's prime rate. Bankers acceptances bear interest at rates ranging from 9% to 9 1/4% and are issued for periods of up to 90 days. In prior years bankers acceptances were included under notes payable.

4. NOTES PAYABLE

Trade notes payable are secured by liens on specific items in the equipment inventory and rental fleet or the assignment of security for instalment receivables due from customers and are also guaranteed by Blackwood Hodge Limited as to \$6,000,000 thereof. They bear interest at rates ranging from 8 1/4% to 13 3/4% at December 31, 1975 and are payable within 1 to 48 months.

5. LONG-TERM DEBT

	1975	1974
Term bank loan	\$2,500,000	\$3,000,000
Loans - parent & affiliates	4,042,000	2,463,000
Mortgages	<u>840,000</u>	<u>951,000</u>
	7,382,000	6,414,000
Less current portion included in accounts payable	<u>613,000</u>	<u>608,000</u>
	<u>\$6,769,000</u>	<u>\$5,806,000</u>

The term bank loan is repayable as to \$500,000 on December 31 in each of the years 1976 and 1977 and as to \$750,000 on December 31 in each of the years 1978 and 1979 and is guaranteed by Blackwood Hodge Limited. Interest (10 3/4% at December 31, 1975) is at a rate of 1% over the bank's prime rate.

Loans payable to the parent company and affiliated companies are not due within one year and bear interest generally at rates from 8% to 9%.

Mortgages payable are secured by various properties, are repayable within 1 to 12 years, and bear interest at rates from 7% to 10 1/2%.

The portions of long-term debt maturing within 5 years are: 1976 - \$613,000, 1977- \$610,000, 1978 - \$846,000, 1979 - \$838,000, 1980 - \$84,000.

6. CAPITAL STOCK

Authorized

3,500,000 Class A convertible common shares without par value.

3,500,000 Class B convertible common shares without par value.

Issued and fully paid

2,338,800 Class A Shares (1974 - 2,371,500)

65,000 Class B Shares (1974 - 28,500)....\$5,525,000

NOTES (continued)

Class A and Class B shares are freely inter-convertible at any time into each other on a one for one basis. The only distinction between the two classes of shares is that the dividends paid on Class B shares are paid out of special categories of surplus on which the company pays a 15% tax and the dividends are reduced to 85%. Class B dividends are not taxable but they do reduce the shareholders' cost base for capital gains tax purposes.

During the year, 48,500 shares were converted from Class A to Class B and 12,000 shares were converted from Class B to Class A.

100,000 of the Class A shares are reserved for issuance under the company's employee stock option plan. Options to purchase 55,750 shares at \$3.53 per share were granted in 1974. These options may be exercised on a cumulative basis at 20% per year and expire on November 7, 1979. During 1975 options exercised totalled 3,800 shares and options cancelled totalled 1,400 shares.

7. EARNINGS PER SHARE

Earnings per share have been calculated on the weighted average number of shares outstanding (1975 - 2,402,300; 1974 - 2,400,000 shares). The potential dilutive effect of the exercise of the stock options referred to in Note 6 is not significant.

8. REMUNERATION OF DIRECTORS AND OFFICERS

The company has 5 directors and their remuneration as directors amounts to \$45,000 (1974 - \$45,000). The company has 6 officers 4 of whom are also directors. They received aggregate remuneration as officers of \$322,000 (1974 - \$292,000). Remuneration of directors and senior officers, as defined in The Securities Act (Ontario) amounted to \$407,000 (1974 - \$366,000).

9. COMMITMENTS

The company has reached an agreement to purchase all of the shares of Tobin Tractor (1957) Ltd., a distributor of construction equipment in Saskatchewan. The agreement involves an aggregate cash consideration of approximately \$1,900,000 over two years and is subject to approval of the Foreign Investment Review Agency.

Various subsidiaries have entered into leases of business premises for periods of up to 9 years. Annual rental costs approximate \$550,000.

10. CONTINGENT LIABILITIES

The companies are contingently liable on customers' notes discounted and instalment sales contracts amounting to \$6,396,000 at December 31, 1975 (1974 - \$4,968,000).

11. ANTI-INFLATION LEGISLATION

The companies are subject to the anti-inflation legislation enacted by the Government of Canada on October 14, 1975 to provide for the restraint of profit margins, prices, dividends and compensation in Canada.

The effect of this legislation on the companies' first compliance year ended December 31, 1975 has not been accurately determined at this date because of uncertainties of interpretation and implementation surrounding the legislation, but it is management's opinion that the companies have complied with the intent of the legislation.

Under the present regulations, the company is not permitted to declare or pay dividends in the twelve months ending October 13, 1976 that exceed 50 cents per share. Regulations relating to the payment of dividends subsequent to October 13, 1976 have not yet been issued.

AUDITORS' REPORT

To the Shareholders of
Blackwood Hodge (Canada) Limited

We have examined the consolidated balance sheet of Blackwood Hodge (Canada) Limited as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
February 25, 1976

Deloitte, Haskins & Sells
Chartered Accountants



<i>DIRECTORS</i>	W. A. Shapland A. W. Edwards F. J. King R. Thacker J. G. Torrance, Q. C.
<i>BANKERS</i>	Canadian Imperial Bank of Commerce
<i>SOLICITORS</i>	Smith, Lyons, Torrance, Stevenson & Mayer
<i>AUDITORS</i>	Deloitte, Haskins & Sells
<i>TRANSFER AGENT</i>	National Trust Company Limited

Blackwood Hodge (Canada) Limited

<i>Chairman</i>	W. A. Shapland
<i>President</i>	A. W. Edwards
<i>Executive Vice-President</i>	F. J. King
<i>Executive Vice-President</i>	R. Thacker
<i>Treasurer</i>	R. W. Watkin
<i>Secretary</i>	N. E. Warry

Blackwood Hodge Ontario Limited

<i>Vice-President - General Manager</i>	G. F. Lambert
<i>Vice-President - Manager Northern Operations</i>	F. J. Castron

Blackwood Hodge Quebec Limited

<i>Vice-President - General Manager</i>	C. H. Holcomb
<i>Vice-President - Parts & Service</i>	W. Hachey
<i>Vice-President - Manufacturing</i>	E. J. Mount

Blackwood Hodge Atlantic Limited

<i>Vice-President - General Manager</i>	G. J. Hurley
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Blackwood Hodge Western Limited

<i>Vice-President - General Manager</i>	D. E. Jenkins
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Suntract Rentals Limited

<i>Vice-President - General Manager</i>	F. G. Mundy
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Suntract Limited

<i>Vice-President - General Manager</i>	R. B. Deschamps
<i>Vice President - Sales</i>	J. A. Smith

BLACKWOOD HODGE (CANADA) LIMITED	
10 Suntract Road, Weston, Ont. M9N 3N5	(416) 244-2531
BLACKWOOD HODGE ONTARIO LIMITED	
10 Suntract Road, Weston, Ont. M9N 3N5	(416) 244-2531
404 Falconbridge Road, Sudbury, Ont. P3A 4R8	(705) 566-3511
2010 Riverside Drive, Timmins, Ont. P4N 7C3	(705) 264-1374
150 Highway No. 15, Ottawa, Ont. K2H 5Z1	(613) 829-5111
16 Royce Court, London, Ont. N6E 1L1	(519) 681-2800
BLACKWOOD HODGE WESTERN LIMITED	
35 Airport Road, Winnipeg, Man. R3H 0V5	(204) 633-5800
399 Memorial Avenue, Thunder Bay, Ont. P7B 3Y4	(807) 344-6671
BLACKWOOD HODGE QUEBEC LIMITED	
1945-55th Avenue, Dorval, Montréal, Que. H9P 1G9	(514) 636-1220
2550 rue Dalton, Ste. Foye, Québec City, Que. G1P 3S4	(418) 653-2801
Highway No. 1, Black Lake, Que. G0N 1A0	(418) 423-4285
149 Maltais Avenue, Sept Isles, Que. G4R 3S8	(418) 962-9824
Rue des Manufacturiers, Val d'Or, Que. J9P 4P8	(819) 825-5111
P.O. Box 39, Labrador City, Nfld. A2V 2K3	(709) 944-3987
BLACKWOOD HODGE ATLANTIC LIMITED	
10 Wright Avenue, P.O. Box 816,	
Burnside Industrial Park, Dartmouth, N.S. B2Y 3Z3	(902) 463-5010
P.O. Box 165, Sydney, N.S. B1P 6H1	(902) 539-7512
Highway 134, Bathurst, N.B. E0B 1H0	(506) 548-3227
255 Baig Boulevard, Moncton, N.B. E1E 1E1	(506) 389-3425
Highway 410-Main Street, Baie Verte, Nfld. A0K 1B0	(702) 532-8288
P.O. Box 1945, Donovan's Industrial Park,	
St. John's, Nfld. A1A 2X9	(709) 722-6506
SUNTRACT RENTALS LIMITED	
ONTARIO	
163 Carlingview Drive, Rexdale, Ont. M9W 5E7	(416) 677-7521
95 Burford Road, Stoney Creek, Ont. L8E 3C6	(416) 561-1182
215 Nantucket Boulevard, Scarborough, Ont. M1P 2P2	(416) 751-6401
2676 Royal Windsor Drive, Mississauga, Ont. L5J 1K7	(416) 322-5122
483 Fairall Street, Ajax, Ont. L1S 1R8	(416) 663-5511
7 Enterprise Avenue, Ottawa, Ont. K2G 0A7	(613) 226-1870
764A Baker Crescent, Kingston, Ont. K7M 6P6	(613) 389-6563
1035 Falconbridge Road, Sudbury, Ont. P3A 4S2	(705) 566-8191
399 Memorial Avenue, Thunder Bay, Ont. P7B 3Y4	(807) 344-7263
26 Royce Court, London, Ont. N6E 1L1	(519) 681-1433
394 Weber Street North, Waterloo, Ont. N2J 3J3	(519) 884-3210
21 Lewis Road, Guelph, Ont. N1H 1E9	(519) 824-6290
R.R. No. 1, Brantford, Ont. N3T 5L4	(519) 758-6138
132 Kincardine Hwy., Walkerton, Ont. N0G 2V0	(519) 881-0160
QUEBEC	
1925-52nd Avenue, Lachine, Montréal, Que. H8T 3C3	(514) 482-8956
2494 rue Dalton, Ste. Foye, Québec City, Que. G1P 3S4	(418) 653-2845
11 Parc Industriel, Cte. la Pointe, Sect. Kinogami,	
Jonquière, Que.	(418) 547-4789
162 Maltais Street, Sept. Isles, Que. G4R 3J8	(418) 962-9396
Rue des Manufacturiers, Val d'Or, Que. J9P 4P8	(819) 825-5111
300 Mederic du Fresne, P.O. Box 1922,	
Trois Rivières, Que. G9A 5M6	(819) 378-6103
ATLANTIC	
46 Fielding Avenue, Burnside Industrial Park,	
Dartmouth, N.S. B3B 1E4	(902) 469-9440
2678 King Street, Halifax, N.S. B3K 4T8	(902) 454-8669
P.O. Box 706, Port Hawkesbury, N.S. B0E 2V0	(902) 625-0887
P.O. Box 1402, Sydney, N.S. V1P 6K3	(902) 564-5423
P.O. Box 1496, Mount Edward Road,	
Charlottetown, P.E.I. C1A 5T7	(902) 892-5415
1035 Commercial Street, New Minas, N.S.	(902) 678-7545
Becklin Industrial Park,	
229 Kenmount Road, St. John's, Nfld. A1B 3P9	(709) 753-1680
Topsail Boulevard, St. John's, Nfld. A1B 3N7	(709) 364-4215
265 Baig Blvd., P.O. Box 534, Moncton, N.B. E1C 8M4	(506) 382-1676
1817 Main Street, Moncton, N.B. E1E 1H5	(506) 382-1676
901 Ashburn Lake Road, St. John. N.B. E2H 2M8	(506) 696-6210
SUNTRACT LIMITED	
3820 Midland Ave. P.O. Box 292, Agincourt, Ont. M1S 3B9	(416) 291-3778



BLACKWOOD HODGE (CANADA) LIMITED
10 Suntract Road, Weston, Ont. M9N 3N5